



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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AS APPROVED

To: Local Government Self Insurance
Health and Welfare Advisory Board

From: John Nicholson
Local Government Self Insurance Program Administrator

Subject: Health and Welfare Advisory Board Meeting Minutes
July 13, 2004 meeting

HEALTH AND WELFARE BOARD MEMBERS PRESENT

Roger Neumaier	Snohomish County
Richard Rodruck	Public Utility Risk Management Services
Ruth Russell	University Place Schools
Sheryl Smith	City of Yakima

HEALTH AND WELFARE BOARD MEMBERS ABSENT

Irene Eldridge	Service Employee International Union Local 925
Ricky Walsh	Washington State Council of Firefighters

EX OFFICIO PRESENT

Chase Davis	Office of the Insurance Commissioner
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LGSI STAFF PRESENT

John Nicholson	Local Government Self Insurance Program
Don Johnsen	Local Government Self Insurance Program

CALL TO ORDER

Meeting was called to order at 9:30 a.m.

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STAFF REPORT

John Nicholson discussed the 2004 legislative revision to RCW 48.62 authorizing non-profit entities to individually or jointly self-insure property and liability exposures or join local government self-insured risk pools to do so. He noted that these changes and State Risk Management's recent organizational move to the Office of Financial Management would be addressed in a revision of the Washington Administrative Code (WAC). He explained the administrative rule revision process, which includes several opportunities for public input. It is anticipated a formal adoption hearing will be held mid November 2004 before which the proposed revisions will be discussed at a Health and Welfare Advisory Board meeting.

Don Johnsen reported program on site examinations continue on schedule. Generally, 2004 expenses have exceeded revenues for programs reviewed to date. As a result, overall surplus reserves are decreasing relative to expenses though overall program incurred but not reported (IBNR) liabilities were being reported/funded at nearly 2 months total program expenses as recommended. There is also a significant recent increase in programs that have or intend to resolicit their service providers, especially brokers.

Staff also met with several local government entities to discuss new self-insured programs. In addition, meetings continued with several relatively new programs on appropriate IBNR reporting.

Ruth Russell discussed the 04-05 WEA benefit plans noting that benefits had been reduced approximately and premiums increased by 11%. The increase will result in teachers at University Place Schools not seeing any increase despite a 4% salary increase and an increased interest in school districts self-insuring all medical plans.

REVIEW OF ANNUAL FINANCIAL REPORTS

Staff reviewed the annual financial reports and reporting process. Administrative regulations (WAC 236-22-060) provide that all local government self-insurance programs submit an annual financial report to the State Risk Manager within 120 days after their fiscal year end. LGSI does two mailings during the year. The first to programs on a calendar fiscal year, which are sent a letter and the annual report form in February. School district programs with an August 31 fiscal year end are sent a letter and report form mid October.

The financial profiles of each of the 57 approved self-insured programs (38 medical and 19 dental and/or vision) were discussed together with overall issues and trends. It was noted actual 2003 and budgeted 2004 financials were based on the program annual reports which while generally accurate could be subject to change based upon LGSI on site program examinations. The consolidated financial profiles for all 57 programs and for the 38 full medical programs (which represent 70% of the all program total revenues and expenses) were also reviewed.

For 2003, all 57 programs had \$416,605,576 million revenues and \$413,263,369 expenses with 77,250 covered employees. City and county programs each represent approximately one third of the revenue/expense totals, with the remaining one-third the total of school districts, public utilities, public hospitals, fire and transit.

2003 IBNR liability for all programs was reported/funded at 7.8 weeks of annual program expenses – up from 7.3 weeks for 2002. 2003 IBNR for medical (excluding dental and/or vision only) programs was reported/funded at 7.3 weeks – the same as 2002. All 57 programs and the

38 full medical programs both budgeted a 2004 IBNR liability of 7.8 weeks annual expenses. 2003 program assets net of funded IBNR liability are budgeted to increase 10.4% for 2004.

LGSi's field experience is that actual 2004 year to date program expenses are generally over budgeted levels and that the majority of self-insured medical programs continue to experience an increased incidence of "large" claims, approaching but not exceeding (individual) stop loss points as occurred in 2002.

The 2003 loss (expense/revenue) ratio for all 57 programs (and for the 38 medical programs) was 99% -- down from the 2002 loss ratio of 102%. The budgeted 2004 loss ratio for both is 96% - as it was for both 2002 and 2003. The 2003 IBNR funding increase relative to expenses was based upon some significant transfers from entities' general funds. With increased utilization and prescription costs, the cost trend is expected to put continued pressure on net assets and the ability to fund IBNR.

School districts generally reduced program assets net of the funded IBNR liability to address bargaining unit issues. Ruth Russell discussed the increasing challenges in school district employee benefits funding.

The board agreed that with the continued significant decreases in program net assets, the present Guideline for Financial Solvency should be reviewed to assure it communicates the importance of adequate contingency reserves.

The all program (actual 2003 and budget 2004) financial profile will replace the previous on the LGSi site page <http://www.ofm.wa.gov/rmd/lgsi.htm>.

NEXT MEETING --

The fourth quarter 2004 Health and Welfare Advisory Board meeting will be held November 9, 2004 at the Wyndam/Prime Hotel, SeaTac.

PUBLIC COMMENT --

There were no public comments.

ADJOURN --

Meeting was adjourned at 12:00 p.m.